MARKET IN MINUTES
Savills Research

# Residential Market Germany

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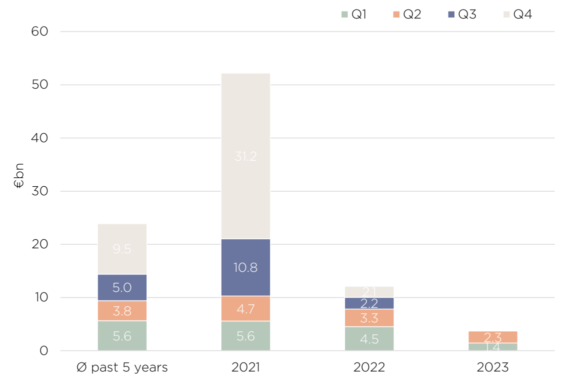
## Time frame for a favourable entry

In the first half of 2023, residential property in Germany was traded for around €3.7bn (Graph 1). This was 53 % less than in the same period of the previous year and at the same time the lowest turnover of a first half-year since 2011. In the course of the year so far, there were four transactions with volumes of more than a quarter of a billion euros each. These transactions accounted for 62% of the volume. However, around three quarters of all recorded sales were smaller than 50 million euros (2021: 65%). Overall, the slogan 'small is beautiful' currently applies to the residential investment market. Especially for small properties, equity-strong buyers can be found, while many investors are cautious about large-volume products or make corresponding price reductions.

### Long-awaited benchmark transactions have taken place

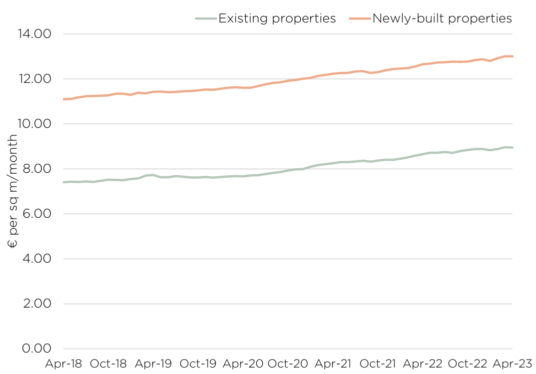
The price adjustment process has taken a particularly long time in the residential investment market and there has been a lack of transaction evidence on realisable prices. However, in recent weeks and months, a number of sales of new-build properties have become public, achieving multipliers of around 25 to 27 times the net annual rent. With these benchmark transactions, there is now more clarity among the players with regard to the achievable initial yields in the purchase or sale. On the one hand, this should facilitate transactions in the coming months. On the other hand, the rise in yields may not yet be strong enough to completely untie the knot in the residential investment market. In the medium term, initial yields for standing stock

Graph 1: Transaction volume*




**Source** Savills / * only transactions with at least 50 units

Graph 2: Average asking rents*




**Source** VALUE Marktdaten / * nationwide average

### FOCUS ON SELECTED FIGURES

**39%**

The subsidised housing segment is meeting with even more demand from investors. In the first half of the year, 39% of the volume of individual property sales was accounted for by fully or partially subsidised properties.

**€76m**

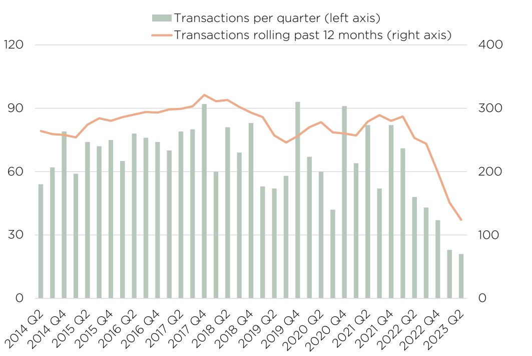
With a volume of only 76 million euros, activity on the market for student and micro housing complexes was also very restrained. In principle, however, demand among investors remains high.

Table 1: Transaction volume and number of traded units at a glance*

| | TRANSACTION VOLUME (€m) | | NUMBER OF TRADED UNITS | |
|---|---|---|---|---|
| | Q1 - Q2 2023 | Y-O-Y CHANGE | Q1 - Q2 2023 | Y-O-Y CHANGE |
| A cities | 1,582 | -55% | 5,442 | -53% |
| B cities | 286 | -75% | 1,568 | -78% |
| C cities | 279 | -57% | 1,454 | -59% |
| D cities | 323 | -64% | 1,876 | -80% |
| OTHER | 1,226 | -24% | 7,697 | -36% |
| GERMANY | 3,697 | -53% | 18,037 | -59% |

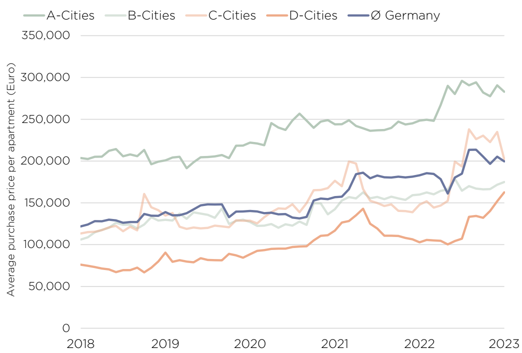
**Source** Savills / * only residential transactions with at least 50 units; city categories based on the Bulwiengesa classification

Graph 3: Number of transactions*




**Source** Savills / * only transactions with at least 50 units

Graph 4: Prices of traded units




**Source** Savills / Note: always past 12 months rolling; based on the Bulwiengesa classification

will have to be above the cost of debt in order to attract new institutional capital.

## Core-plus properties in highest demand

According to our observations, core-plus properties are currently experiencing the greatest demand among investors. As a rule, these are solid properties in attractive residential locations that offer long-term appreciation potential through an increase in rents or slight modernisation. There is also a lot of capital waiting in the wings for value-add approaches, but the price expectations of bidders and owners are often still too far apart. For many institutional investors, however, it is still mainly new-build properties that come into consideration, also against the background of their ESG goals. Nevertheless, forward purchases accounted for only 19% of the transaction volume in the first half of 2023, significantly less than in 2022 (36%). Rents in new-build projects are less regulated than in existing properties, and index-linked or graduated rents also make it easier to achieve a certain degree of inflation protection. Nevertheless, we are seeing subdued demand for such core properties from investors who are primarily cashflow-oriented, because initial yields are still below the cost of debt. This results in a negative leverage effect, so that at the current yield level it is mainly equity buyers who are attracted.

## Short-term price dip vs. long-term growth perspective

The rise in prime net initial yields since March 2022 by around 120 basis points to most recently around 3.4% has caused capital values to fall significantly in the short term. This could open up a window of opportunity for a favourable entry into the German residential market. The supply-demand ratio on the occupier markets has rarely been so out of balance. Vacancy rates in many cities are already at a record low and the shortage is likely to worsen. Forecasts predict that the number of completed units will fall below 200,000 in a few years. This is less than half of the new construction target issued by the Federal Government. The consequence will be a further worsening housing shortage, which is likely to be reflected, among other things, in further increases in rents (Graph 2). In the long term, this should lead to an increase in capital values again. Against this backdrop, the currently lower prices represent an opportunity for long-term investors. The foreseeable housing shortage also opens up space for a wide variety of value-add approaches, for example by leveraging redensification potential or adding storeys to existing buildings. The lack of rental apartments could also increase the demand for owner-occupied apartments again in the future, which is why privatisation strategies could also represent an opportunity.

While a favourable time window for long-term oriented buyers to enter the market is opening up, the timing could also be favourable for owners willing to sell. A timely sale could have advantages over a wait-and-see approach, as there are currently still a relatively large number of equity buyers on the market who stabilise prices, especially for smaller and medium-sized properties. Once this equity is invested, however, prices could fall again.

## Outlook 2023

In our opinion, the existence of benchmark transactions will favour transaction activity in the further course of the year. In contrast to the commercial property market, however, there are no signs of a significant increase in supply on the residential investment market so far, so that we expect a transaction volume of less than 10 billion euros for the year as a whole.

**Download the charts and raw data here**

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